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April 25, 2012

## VIA FEDERAL EXPRESS

MR JEFF DEROUEN  
EXECUTIVE DIRECTOR  
PUBLIC SERVICE COMMISSION  
211 SOWER BLVD.  
FRANKFORT KY 40602

**Re: Joint Petition: Paducah Water Works and  
Hendron Water District**

Dear Mr. DeRouen:

Enclosed please one original and ten (10) copies of a Joint Petition to approve the transfer of ownership and control of the water distribution system of Hendron Water District to the Paducah Water Works ("PWW"). PWW has a history of such action in that this is the fourth such consolidation into its system since 1986. In fact, PWW has been a leader in such regard in that PWW spearheaded the effort to change KRS 96.320 to allow county representatives on the board of commissioners for cities of the second class. In order to represent its customers outside the city limits of Paducah, PWW usually has the maximum number of three seats filled by county representatives.

As stated in the petition, because PWW's next fiscal year begins July 1, 2012, PWW requests an expedited approval of this application so that PWW may incorporate the District's operations and capital planning into their upcoming budget.

If you have any questions or need any additional information, please do not hesitate to call.

Sincerely yours,



Melissa D. Yates

Enclosures

cc: Mr. Glen Anderson

RECEIVED

APR 26 2012

PUBLIC SERVICE  
COMMISSION

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED  
APR 26 2012  
PUBLIC SERVICE  
COMMISSION

In the Matter of:

**Joint Petition of the Paducah Water Works  
and the Hendron Water District to Approve the  
Transfer of Ownership and Control of the Hendron  
Water District to the Paducah Water Works.**

Case No. \_\_\_\_\_

1. JURISDICTION

The Kentucky Public Service Commission (PSC) has jurisdiction over this matter pursuant to KRS 278.015 and KRS 278.020(4).

2. PETITIONERS

a. The Paducah Water Works ("PWW") was formed in the 1930's pursuant to KRS Chapter 96. A copy of PWW's 2011 Financial Statement is attached hereto, and incorporated herein by reference as Exhibit "A."

b. The Hendron Water District ("District") is a Kentucky water district established in 1962 pursuant to KRS Chapter 74. A copy of the original ordinance establishing District is attached hereto, and incorporated herein by reference as Exhibit "B." A copy of District's 2010 Annual Report to the PSC is attached hereto, and incorporated herein by reference as Exhibit "C."

3. TRANSFER AGREEMENT

Subject to the approval of the Public Service Commission, the Kentucky Division of Water and applicable lending agencies, PWW entered into a transfer agreement with District, dated April, 16, 2012, wherein District agreed to assign and transfer to PWW its entire water distribution system consisting of all assets, rights, privileges, debts and liabilities of every nature and wheresoever situated. A true and exact copy of said agreement is attached hereto, and incorporated herein by reference as Exhibit "D."

The terms and provisions of the transfer agreement are most beneficial to the customers of District. In particular, by virtue of the transfer agreement, the customers of District will realize the following benefits:

a. District's customers are currently charged twenty percent (20%) more than PWW's water rate to its customers. This twenty percent (20%) water rate differential shall be equalized for District customers immediately upon the consummation of this transaction. Other changes regarding capital replacement and extensions are outlined in numbered paragraph 8.2 of the transfer agreement.

b. The transfer agreement provides for the continued employment of some of the District's employees or six months' severance for those who are not continued . Additionally, the transfer agreement provides that PWW will assume full responsibility of operating and maintaining District's water distribution system. Therefore, the customers of District will not only realize a greater revenue base, but also will be accorded the additional technical expertise and equipment which can be provided to the customers of District over and above the technical expertise and equipment which District could provide.

#### 4. PLAN OF OPERATIONS

Upon approval by the PSC, the Kentucky Division of Water, and applicable lending agencies, PWW expects to commence operations of District's water distribution system. The following matters shall be completed or substantially completed by the commencement date.

a. Approval by the Paducah-McCracken County Judge/Executive of the dissolution of the District pursuant to the provisions of KRS 74.367.

b. Transfer of all District assets to PWW.

c. All long term debt, current and accrued liabilities of District shall either be assumed, refinanced or paid off by PWW.

d. All non-management employees of District shall be offered employment by PWW or provided with severance as described in Numbered Paragraph 3 (b) above, under terms and conditions commensurate with PWW employees in a similar job classification.

#### 5. QUALIFICATIONS TO OPERATE DISTRICT

PWW hereby affirms that it is ready, willing and able to provide water services to the customers of District. PWW has completed similar transactions three times since 1986. In fact, the last similar transaction, which was consummated with Reidland Water District in 1999, involved a treatment plant thus it was more complicated than the one contemplated in this transaction. PWW states that if this joint petition is favorably considered by this Commission, PWW will continue to employ persons experienced in the operations of water works systems, including some of the District's employees who choose to accept employment with PWW, and that the water facilities received from District will be operated properly and in accordance with recognized and established standard and practices. PWW affirmatively states that it has the, "financial, technical, and managerial abilities to provide reasonable service" as required by KRS 278.020(5).

The joint applicants state that the transfer of District's water distribution system to PWW is genuinely in the public interest, is reasonably necessary for the public convenience, necessity, health, comfort and well-being of the customers currently served by District, and that PWW can and will operate said facilities as part of its existing system on a sound financial basis.

6. REQUEST FOR EXPEDITED CONSIDERATION

Because PWW's next fiscal year begins July 1, 2012, PWW requests an expedited approval of this application so that PWW may incorporate the District's operations and capital planning into their upcoming budget.

WHEREFORE, the Joint Petitioners pray that the PSC:

1. Approve the transfer of the assets of District to PWW in accordance with the terms and conditions set forth herein;
2. Approve the dissolution of District after the transfer to PWW; and
3. Provide to the Joint Petitioners such other relief as they may appear to be entitled.

DATED: April, 25<sup>th</sup>, 2012

Respectfully Submitted,

PADUCAH WATER WORKS

By: Bob Johnston  
Bob Johnston, Chairman

HENDRON WATER DISTRICT

By: Larry S. Hopper  
Larry Hopper, Chairman

And

DENTON & KEULER, LLP

P. O. BOX 929  
PADUCAH KY 42002-0929  
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By: Melissa D. Yates  
Melissa D. Yates



PADUCAH WATER WORKS

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FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2011 AND 2010



WILLIAMS, WILLIAMS & LENTZ, LLP  
Certified Public Accountants

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### Independent Auditor's Report

The Board of Directors  
Paducah Water Works  
Paducah, Kentucky


We have audited the accompanying financial statements of Paducah Water Works, a component unit of the City of Paducah, Kentucky, as of and for the years ended June 30, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the Paducah Water Works' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Paducah Water Works, as of June 30, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 23, 2011, on our consideration of Paducah Water Works' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 2 through 6, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

  
September 23, 2011



**REQUIRED SUPPLEMENTARY INFORMATION**

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis of Paducah Water's (PW) financial performance provides an overview of the financial activities for the fiscal year ended June 30, 2011. Please read it in conjunction with the financial statements, which begin on page 7.

### Financial Highlights

- PW's net assets increased by \$1.46 million (3.8%) as a result of this year's operations.
- Net income before capital contributions increased by \$361 thousand to \$1.25 million.
- Operating revenues increased by \$967 thousand (12.3%) to \$8.80 million, due to a full year of new capital replacement and expansion fee revenue which was an increase of \$415 thousand and higher water sales which was an increase of \$571 thousand.
- Operating expenses, excluding depreciation, increased by \$197 thousand (3.5%) to \$5.77 million due largely to higher variable costs tied to water sales from the previous year.

### Using This Annual Report

This annual report consists of a series of financial statements: The Statement of Net Assets, The Statements of Revenues, Expenses, and Changes in Net Assets and The Statement of Cash Flows. These statements provide information about the activities of PW and present a long-term view of the finances.

#### **The Statement of Net Assets**

The Statement of Net Assets includes all of PW's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). The difference between assets and liabilities is reported as net assets. Over time increases or decreases in net assets may serve as a useful indicator of whether the financial position of PW is improving or deteriorating.

#### **The Statement of Revenues, Expenses and Changes in net Assets**

The Statements of Revenues, Expenses, and Changes in Net Assets identifies the revenues generated, expenses incurred and net assets changed during the period reported. This statement measures the success of PW's operations over the reporting period and can be used to determine whether PW has successfully recovered all its costs through its water rates and other charges.

#### **The Statement of Cash Flows**

The Statement of Cash Flows provides information relating to PW's cash receipts and cash disbursements during the fiscal year. The statement reports net changes in cash resulting from operations, investing and financing activities, and helps the user assess where cash came from, what cash was used for, and what changes occurred in cash balances during the reporting period.

## Financial Analysis

### Net Assets

Net assets may serve over time as a useful indicator of PW's financial position. Net assets were \$40.39 million at June 30, 2011, compared to \$38.93 at June 30, 2010, an increase of \$1.46 million or 3.8%.

### Condensed Statements of Net Assets (amounts expressed in thousands)

	As of June 30,		Increase	Percent
	2011	2010	(Decrease)	Change
Current and other assets	\$ 7,214	\$ 6,858	\$ 356	5%
Capital assets, net	41,272	38,042	3,230	8%
Total assets	<u>48,486</u>	<u>44,900</u>	<u>3,586</u>	8%
Current liabilities	1,859	2,393	(534)	-22%
Long-term liabilities	<u>6,235</u>	<u>3,579</u>	<u>2,656</u>	74%
Total liabilities	<u>8,094</u>	<u>5,972</u>	<u>2,122</u>	36%
<u>Net assets:</u>				
Invested in capital assets, net of related debt	34,873	34,447	426	1%
Restricted	0	0	0	0%
Unrestricted	<u>5,519</u>	<u>4,482</u>	<u>1,037</u>	23%
Total net assets	<u>\$ 40,392</u>	<u>\$ 38,929</u>	<u>\$ 1,463</u>	4%

By far, the largest portion of PW's net assets reflects its investment in capital assets (i.e., utility plant), less any related debt used to acquire those assets that is still outstanding. Although PW's investment in its capital assets is reported net of related debt, it should be noted that the resources to repay this debt must be provided from other sources, since the capital assets themselves are not intended to be used to liquidate these liabilities.

The remaining balance of net assets represents unrestricted net assets and may be used to meet PW's ongoing obligations to creditors.

The increase in net assets during the current fiscal year indicates an improved financial position.

### Change in Net Assets

While the Statements of Net Assets show the make-up of PW's assets, liabilities, and net assets at year-end, the Statements of Revenues, Expenses, and Changes in Net Assets provide information on the source of the change during the year. The two sources of the increase in net assets of \$1.463 million were income before capital contributions (formerly net revenue) of \$1.252 million and capital contributions of \$211 thousand.

**Condensed Statements of Revenues, Expenses and Changes in Net Assets**  
(amounts expressed in thousands)

	Years ended June 30,		Increase	Percent
	2011	2010	(Decrease)	Change
Operating revenues	\$ 8,803	\$ 7,836	\$ 967	12%
Nonoperating revenues	<u>14</u>	<u>20</u>	<u>(6)</u>	-30%
Total revenues	<u>8,817</u>	<u>7,856</u>	<u>961</u>	12%
Operating expenses	5,772	5,575	197	4%
Nonoperating expenses	<u>1,793</u>	<u>1,391</u>	<u>402</u>	29%
Total expenses	<u>7,565</u>	<u>6,966</u>	<u>599</u>	9%
Income before capital contributions (formerly net revenue)	1,252	890	362	41%
Contributions	<u>211</u>	<u>474</u>	<u>(263)</u>	-55%
Increase in net assets	1,463	1,364	99	7%
Beginning net assets	<u>38,929</u>	<u>37,565</u>	<u>1,364</u>	4%
Ending net assets	<u>\$ 40,392</u>	<u>\$ 38,929</u>	<u>\$ 1,463</u>	4%

Income before capital contributions increased by \$362 thousand over the previous year mainly due to increased water sales revenue of \$571 thousand and a full year of the new Capital Replacement and Expansion fee revenue resulting in an increase of \$415 thousand. This fee was established to create another revenue stream which will allow aging transmission and distribution mains to be replaced as well as allowing for necessary expansions to the distribution system. This fee will be phased in over thirty months with the expected revenue being approximately \$2 million dollars annually. Increased revenue was offset by an increase in Operating Expenses of \$197 thousand due mainly to increased variable costs associated with higher water sales, and a loss on disposal of Reidland water plant and tank of \$314 thousand.

**Capital Assets and Long-Term Debt**

PW's net investment in plant, lines, and other facilities increased by \$3.2 million in FY 2011. Major additions included the Reidland system upgrade (\$2.78 million) a water main replacement in the Glenview area (\$459 thousand), and main replacement at Hill, Bell, Markham streets (\$274 thousand).

During FY 2011 long-term debt increased by \$2.656 million due to \$2.831 million in borrowing for the Reidland system upgrade project. The expected total of the debt for this project with the Kentucky Infrastructure Authority will be approximately \$7.5 million to be paid over twenty years at one percent interest. Also, long-term debt totaling \$60 thousand was with the Kentucky Infrastructure Authority assumed from Reidland Water District in 1999. This KIA debt will mature in 2013.

### **Budgetary Controls**

PW operates its general activities in accordance with a budget adopted by its Board. As demonstrated by the statements included in the financial section of this report, PW continues to meet its responsibility for sound financial management.

Total operating revenues for the period were \$8.803 million compared to a budget of \$8.365 million. Total operating expense was under the budgeted amount for the fiscal year ended by 0.56%. Actual operating expense was \$5.772 million compared to a budget of \$5.805 million. Net Revenue ended \$104 thousand over budget for the period.

### **Currently Known Facts, Decisions or Conditions**

This section discusses currently known facts, decisions or conditions as of the date of the auditor's report that are expected to have a significant effect on PW's financial position (Net Assets) or results of operations (Revenues, Expenses, and other Changes in Net Assets).

PW has a significant percentage of water mains that are aging. Over the next twenty-five years these water mains will need to begin to be replaced at what will be a significant expense to the rate payers. Management estimates that nearly \$100 million will need to be spent over the next fifty to sixty years replacing aging water mains. In FY2010, a Capital Replacement and Expansion fee was instituted for all customers based on meter size that will add additional revenue of approximately \$2 million per year. This fee partnered with other operating revenue will begin to allow Paducah Water to address this issue.

### **Requests for Additional Information**

This financial report is designed to provide a general overview of PW's finances for all those with an interest in PW's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Controller  
Paducah Water  
P.O. Box 2377  
Paducah, KY 42002-2377

**Statement of Income and Expense**  
**For the twelve months ended June 30, 2011**  
(amounts expressed in thousands)

	Actual	Budget	Increase (Decrease)	Percent Difference
<b>Operating revenue</b>	\$ 8,803	\$ 8,365	\$ 438	5%
<b>Operating expenses</b>				
Pumping & purification	2,165	2,084	81	4%
Distribution & engineering	1,517	1,530	(13)	-1%
Office & administrative	1,410	1,439	(29)	-2%
Other	680	752	(72)	-10%
Total expenses	<u>5,772</u>	<u>5,805</u>	<u>(33)</u>	-1%
<b>Net operating income</b>	<u>3,031</u>	<u>2,560</u>	<u>471</u>	18%
<b>Other income (expenses)</b>				
Interest income	14	15	(1)	-7%
Other	(315)	0	(315)	0%
Depreciation	(1,399)	(1,350)	(49)	4%
Interest on funded debt	(77)	(74)	(3)	4%
Amortization	(2)	(3)	1	-33%
	<u>(1,779)</u>	<u>(1,412)</u>	<u>(367)</u>	26%
<b>Net Revenue</b>	<u>\$ 1,252</u>	<u>\$ 1,148</u>	<u>\$ 104</u>	9%

**BASIC FINANCIAL STATEMENTS**

**PADUCAH WATER WORKS**  
**STATEMENTS OF NET ASSETS**  
**JUNE 30**

**ASSETS**

	<b>2011</b>	<b>2010</b>
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 2,298,823	\$ 2,173,532
Accounts receivable	374,287	395,204
Material and supplies inventory	508,702	442,669
Accrued unbilled revenue	881,172	900,304
Other current assets	972,331	773,669
	<hr/>	<hr/>
Total current assets	5,035,315	4,685,378
<b>Capital Assets:</b>		
Utility plant in service	60,670,548	61,159,749
Construction in progress	8,938,889	4,852,091
	<hr/>	<hr/>
Totals	69,609,437	66,011,840
Less accumulated depreciation	28,337,751	27,969,771
	<hr/>	<hr/>
Total capital assets	41,271,686	38,042,069
<b>Other Assets:</b>		
Unamortized bond discount and debt expense	6,053	8,067
Cash, designated	895,601	895,467
Certificates of deposit, designated	1,276,930	1,269,570
	<hr/>	<hr/>
Total other assets	2,178,584	2,173,104
	<hr/>	<hr/>
Total assets	48,485,585	44,900,551

**LIABILITIES**

<b>Current Liabilities:</b>		
Notes payable, KIA	170,109	25,000
Accounts payable, trade	752,832	1,377,919
Other accrued expenses and current liabilities	936,155	990,047
	<hr/>	<hr/>
Total current liabilities	1,859,096	2,392,966
<b>Long-Term Debt:</b>		
Notes payable, KIA	6,234,636	3,578,635
	<hr/>	<hr/>
Total long-term debt	6,234,636	3,578,635
	<hr/>	<hr/>
Total liabilities	8,093,732	5,971,601

**NET ASSETS**

Invested in capital assets, net of related debt	34,872,994	34,446,501
Unrestricted	5,518,859	4,482,449
	<hr/>	<hr/>
<b>TOTAL NET ASSETS</b>	<b>40,391,853</b>	<b>38,928,950</b>

See notes to financial statements.



**PADUCAH WATER WORKS**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**YEARS ENDED JUNE 30**

	<u>2011</u>	<u>2010</u>
<b>Operating Revenues:</b>		
Metered water sales	\$ 7,112,783	\$ 6,541,511
Fire protection fees	114,613	114,033
Municipal water sales	60,392	51,142
Collection fees and late payment charges	284,336	281,664
Capital replacement fee	1,017,803	603,209
Miscellaneous	<u>213,204</u>	<u>244,673</u>
 Total operating revenues	 <u>8,803,131</u>	 <u>7,836,232</u>
<b>Operating Expenses:</b>		
Pumping and purification	2,164,733	2,062,688
Transmission and distribution	1,517,360	1,428,741
Office and administrative	1,409,855	1,273,742
Other	<u>680,282</u>	<u>809,488</u>
 Total operating expenses	 <u>5,772,230</u>	 <u>5,574,659</u>
 Operating income	 <u>3,030,901</u>	 <u>2,261,573</u>
<b>Nonoperating Revenues (Expenses):</b>		
Interest income	13,523	17,140
Bond interest	-	(7,688)
Amortization	(2,014)	(581)
Other interest	(77,636)	(5,673)
Depreciation	(1,398,787)	(1,376,715)
Gain (loss) on disposal of capital asset	(314,274)	2,520
Other	<u>-</u>	<u>(182)</u>
 Net nonoperating revenues (expenses)	 <u>(1,779,188)</u>	 <u>(1,371,179)</u>
 Income before capital contributions	 <u>1,251,713</u>	 <u>890,394</u>
<b>Capital Contributions:</b>		
Connection fees	196,880	178,860
All other	<u>14,310</u>	<u>294,391</u>
 Total capital contributions	 <u>211,190</u>	 <u>473,251</u>
 Increase in net assets	 1,462,903	 1,363,645
 Net assets, beginning of year	 <u>38,928,950</u>	 <u>37,565,305</u>
 NET ASSETS, END OF YEAR	 <u>\$40,391,853</u>	 <u>\$38,928,950</u>

See notes to financial statements.

**PADUCAH WATER WORKS**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30**

	<u>2011</u>	<u>2010</u>
<b>Cash Flows from Operating Activities:</b>		
Receipts from customers	\$ 8,843,180	\$ 7,650,181
Payments to suppliers	(4,283,323)	(2,635,128)
Payments to employees	(2,428,583)	(2,246,886)
	<u>2,131,274</u>	<u>2,768,167</u>
<b>Net cash provided by operating activities</b>		
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Proceeds from KIA Loan	2,831,110	3,513,635
Capital contributions	196,880	178,860
Acquisitions of capital assets	(4,928,369)	(4,881,908)
Proceeds from the sale of capital assets	-	2,520
Proceeds from extinguishment of debt	-	-
Principal paid on capital debt	(30,000)	(25,000)
Interest paid on capital debt	(77,635)	(12,110)
	<u>(2,008,014)</u>	<u>(1,224,003)</u>
<b>Net cash used by capital and related financing activities</b>		
<b>Cash Flows from Investing Activities:</b>		
Proceeds from sales and maturities of investments	134	252,126
Purchase of investments	(7,494)	(21,269)
Interest on investments	9,525	22,474
	<u>2,165</u>	<u>253,331</u>
<b>Net cash provided by investing activities</b>		
<b>Net increase in cash and cash equivalents</b>	125,425	1,797,495
<b>Cash and cash equivalents, beginning of year</b>	<u>3,068,999</u>	<u>1,271,504</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 3,194,424</u>	<u>\$ 3,068,999</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	\$ 3,030,901	\$ 2,261,573
Adjustments to reconcile operating income to net cash provided by operating activities:		
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	20,917	(39,040)
(Increase) decrease in accrued unbilled revenue	19,132	(147,011)
(Increase) decrease in inventory	(66,033)	(45,981)
(Increase) decrease in other current assets	(194,664)	45,900
Increase (decrease) in accounts payable	(625,087)	724,968
Increase (decrease) in accrued payroll	(39,688)	16,247
Increase (decrease) in other current liabilities	(14,204)	(48,489)
	<u>\$ 2,131,274</u>	<u>\$ 2,768,167</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		

See notes to financial statements.

**PADUCAH WATER WORKS**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2011 AND 2010**

**Note 1 - Summary of Significant Accounting Policies:**

**Reporting Entity**

Paducah Water Works is a municipal utility, purchased by the City of Paducah in 1930. The area served is virtually all of McCracken County, including two separate water districts, as well as a small portion of Marshall County and Graves County.

Paducah Water Works serves 23,400 customers with 14,300 of these in the City of Paducah and the remainder in the areas previously described. The two water districts served have approximately 3,700 customers.

**Basis of Accounting**

Paducah Water Works' financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. This requires the accrual basis of accounting for proprietary entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Paducah Water Works is a single fund government and a component unit of the City of Paducah with the Board of Directors appointed by the Mayor. Paducah Water Works has no oversight responsibility for any other entity since control or dependence is determined on the basis of budget adoption, taxing authority, funding, and appointment of the respective governing board.

**Basic Financial Statements**

Paducah Water Works' basic financial statements include the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. Paducah Water Works has only one fund that uses a set of self-balancing accounts comprised of its assets, liabilities, net assets, revenues, and expenses.

The statements are prepared on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations.

**Cash and Cash Equivalents**

For purposes of reporting cash flows, Paducah Water Works does not consider certificates of deposit, regardless of maturity, as cash equivalents.

**Materials and Supplies Inventory**

Materials and supplies inventory is valued at weighted average cost.

**Depreciation**

Depreciation is computed on the straight-line basis over the estimated useful lives of various classes of assets. It is Paducah Water Works' policy to include amortization expense on assets acquired under capital leases with depreciation expense on owned assets.

Distribution mains, service lines, standpipes, and tanks	60 years
Booster station, raw water intake, and treatment plant equipment	40 years
Meters	25 years
Hydrants	40 years
Buildings	40-60 years
Other equipment	5-15 years

(Continued)

**PADUCAH WATER WORKS**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2011 AND 2010**

**Note 1 - Summary of Significant Accounting Policies:**

**Net Assets**

Net assets are displayed in three components:

- a. *Invested in capital assets, net of related debt* - Consists of capital assets including restricted capital assets, net of accumulated depreciation, and unpaid debt financing.
- b. *Restricted net assets* - Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. *Unrestricted net assets* - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

**Capital Contributions**

Capital contributions are derived from three main sources: 1) customers, in the form of tap fees; 2) developers, when they construct and pay for water lines and then donate these additions to Paducah Water Works; and 3) other governments, in the form of grant contributions for capital assets. Developer contributions are recorded at the developer's cost and are depreciated over their estimated useful lives using the straight-line method.

**Employee Compensated Absences**

Employees of Paducah Water Works are entitled to paid vacations and sick days depending on job classification, length of service, and other factors; and, accordingly, Paducah Water Works has recorded the accrual in the accompanying financial statements.

**Operating Revenues and Expenses**

Operating revenues consist primarily of charges to customers for the sale of water. Operating expenses consist of the cost of providing water, including administrative expenses. All other revenues and expenses are classified as non-operating.

Accrued unbilled revenue represents the portion of water service provided that was unbilled as of the end of the year.

**Bad Debts**

The Company uses the direct write-off method in recognizing bad debts expense. Generally accepted accounting principles require that the allowance method be used to reflect bad debts. However, the effect of the use of the direct write-off method is not materially different from the results that would have been obtained had the allowance method been followed. The Company expensed \$27,759 and \$37,794 in bad debts during the years ended June 30, 2011 and 2010, respectively.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect certain amounts and disclosures. Accordingly, actual results could differ from those estimates.

(Continued)

**PADUCAH WATER WORKS**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2011 AND 2010**

**Note 1 - Summary of Significant Accounting Policies:**

**Subsequent Events**

Subsequent events were evaluated through September 23, 2011, which is the date the financial statements were available to be issued.

**Note 2 - Deposits:**

The investment policies of Paducah Water Works are governed by the State statute. In general, this requires that all deposits and investments, not covered by FDIC insurance, are to be collateralized. For the years ended June 30, 2011 and 2010, Paducah Water Works' financial institution balances were fully collateralized as required by State statute.

Deposits consist of savings and checking accounts and certificates of deposit that mature in twelve months or less. The financial institution balances of Paducah Water Works' deposits were \$4,615,437 for the year ended June 30, 2011. The book balance was \$4,471,354 including \$37,177 of undeposited funds. Of the various financial institution balances at June 30, 2011, \$266,642 was insured by federal depository insurance, and the remaining balance was subject to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The remaining balance of \$4,348,795 was uninsured and collateralized with securities held by the pledging bank's agent not in Paducah Water Works' name.

**Note 3 - Depreciation Fund**

At June 30, 2011, cash includes \$500,000 in the Depreciation Fund, which is designated. As required by the Bond Ordinance, Paducah Water Works transfers to the Depreciation Fund amounts from its General Fund to maintain the minimum balance of \$500,000. During the year ended June 30, 2011, these transfers to the Depreciation Fund totaled \$1,030,762 (\$408,146 for 2010). The Depreciation Fund is used for unusual repairs or replacements to keep the System in good operating condition or for constructing additions and/or improvements to the System. A total of \$460,370 (\$0 in 2010) was withdrawn from the Depreciation Fund for additions and/or improvements during the year ended June 30, 2011. Amounts from the Depreciation Fund can also be transferred to the Current Sinking Fund, if needed, to make an interest and/or bond payment. As of August 2010, receipts of connection fees charged are no longer deposited to the Depreciation Fund.

**Note 4 - Capital Assets:**

A summary of capital asset activity for the year ended June 30, 2011, is as follows:

	<u>Balance</u>			<u>Balance</u>
	<u>June 30, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2011</u>
Capital assets	\$ 66,011,840	\$ 4,942,678	\$(1,345,081)	\$ 69,609,437
Accumulated depreciation	<u>(27,969,771)</u>	<u>(1,398,787)</u>	<u>1,030,807</u>	<u>(28,337,751)</u>
<b>CAPITAL ASSETS, NET</b>	<b><u>\$ 38,042,069</u></b>	<b><u>\$ 3,543,891</u></b>	<b><u>\$ (314,274)</u></b>	<b><u>\$ 41,271,686</u></b>

**Note 5 - Notes Payable, KIA:**

Notes payable, KIA represents financing from the Kentucky Infrastructure Authority. Interest rates range from 1.59% to 5.19%, with a .25% annual service fee. The annual requirements to amortize the outstanding debt as of June 30, 2011, are as follows:

(Continued)

**PADUCAH WATER WORKS**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2011 AND 2010**

**Note 5 - Notes Payable, KIA:**

<u>Year Ending</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>.25%</u> <u>Service</u> <u>Fee</u>	<u>Total</u>
2012	\$ 170,109	\$ 42,625	\$ 219	\$ 212,953
2013	312,850	78,042	252	391,144
2014	286,398	72,947	183	359,528
2015	289,989	69,539	174	359,702
2016	293,625	65,738	165	359,528
2017-2021	1,524,283	272,672	683	1,797,638
2022-2026	1,622,276	174,924	438	1,797,638
2027-2031	1,905,215	72,007	180	1,977,402
<b>TOTALS</b>	<b><u>\$6,404,745</u></b>	<b><u>\$ 848,494</u></b>	<b><u>\$ 2,294</u></b>	<b><u>\$7,255,533</u></b>

**Note 6 - Change in Long-Term Liability:**

	<u>Balance</u> <u>June 30, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2011</u>
Notes payable, KIA	\$ 90,000	\$ -	\$30,000	\$ 60,000
Notes payable, KIA Reidland Interchange	<u>3,513,635</u>	<u>2,831,110</u>	-	<u>6,344,745</u>
<b>TOTALS</b>	<b><u>\$3,603,635</u></b>	<b><u>\$2,831,110</u></b>	<b><u>\$30,000</u></b>	<b><u>\$6,404,745</u></b>

**Note 7 - Employee Benefits:**

**Pension Plan**

*Plan Description.* Paducah Water Works contributes to the County Employees Retirement System (CERS), a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement Systems. CERS provides retirement, disability benefits, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost of living (COLA) adjustments are provided at the discretion of the State legislature. Under the provisions of Kentucky Revised Section 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS. The Kentucky Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601-6124 or by calling (502) 564-4646.

*Funding Policy.* Plan members hired before January 2009 are required to contribute 5% of their annual covered salary, plan members hired after January 2009 are required to contribute 6% of their annual covered salary; and, Paducah Water Works is required to contribute at an actuarially determined rate. The current rate is 16.93% of annual covered payroll. The contribution requirements of plan members and Paducah Water Works are established and may be amended by the KRS Board of Trustees. The Paducah Water Works contributions to CERS for the years ended June 30, 2011, 2010, and 2009, were \$380,545, \$350,611, and \$298,089, respectively, equal to the required contribution for each year.

(Continued)

**PADUCAH WATER WORKS**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2011 AND 2010**

**Note 7 - Employee Benefits:**

**Health Insurance**

Beginning in the 2010 fiscal year, Paducah Water Works no longer has a self-insured health plan but rather a traditional health insurance plan through Anthem. A majority of the cost of the plan is borne by the Paducah Water Works. The medical benefits provide \$500 out-of-pocket maximum per individual, and \$1,500 out-of-pocket maximum per family, as well as \$250 and \$750 deductible per individual and family, respectively. Health insurance expense was \$416,736 and \$535,512 for years ended June 30, 2011 and 2010, respectively.

**Note 8 - Disclosures Regarding the Statement of Cash Flows:**

For purposes of the Statement of Cash Flows, the composition of cash and cash equivalents at June 30, 2011 and 2010, is as follows:

	<u>2011</u>	<u>2010</u>
Cash and cash equivalents	\$2,298,823	\$2,173,532
Cash, designated	<u>895,601</u>	<u>895,467</u>
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	<b><u>\$3,194,424</u></b>	<b><u>\$3,068,999</u></b>
Noncash capital and related financing activities:		
	<u>2011</u>	<u>2010</u>
<b>NONCASH CAPITAL CONTRIBUTIONS</b>	<b><u>\$ 14,310</u></b>	<b><u>\$ 294,391</u></b>

**Note 9 - Other Current Assets:**

Other Current Assets consisted of the following:

	<u>2011</u>	<u>2010</u>
Miscellaneous receivable	\$ 535,004	\$ 422,007
Accrued interest receivable	6,079	2,082
Prepaid insurance	196,518	91,734
Noble Road receivable	140,031	140,031
Health insurance premium receivable	49,363	83,459
Flex advance receivable	25,084	20,817
Other	<u>20,252</u>	<u>13,539</u>
<b>TOTAL OTHER CURRENT ASSETS</b>	<b><u>\$ 972,331</u></b>	<b><u>\$ 773,669</u></b>

(Continued)

**PADUCAH WATER WORKS**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2011 AND 2010**

**Note 10 - Other Accrued Expenses and Current Liabilities:**

Other accrued expenses and current liabilities consisted of the following:

	<u>2011</u>	<u>2010</u>
Accrued payroll and payroll withholdings	\$ 88,419	\$108,237
Accrued sales tax	24,684	20,931
City refuse and dumpster payable	152,087	121,228
Sewer service collections payable	367,235	432,929
Deposit collections payable	32,590	53,095
Accrued sick and vacation time	212,872	197,929
Other	<u>58,268</u>	<u>55,698</u>
<b>TOTAL ACCRUED EXPENSES AND CURRENT LIABILITIES</b>	<b><u>\$936,155</u></b>	<b><u>\$990,047</u></b>

**Note 11 - Miscellaneous Revenues:**

Miscellaneous revenues consisted of the following:

	<u>2011</u>	<u>2010</u>
Returned checks	\$ 5,763	\$ 7,467
Re-established service	85,590	99,549
Meter replacement	14,700	14,005
Service calls	6,359	8,629
New service	77,256	84,397
Rents and miscellaneous fees	<u>23,536</u>	<u>30,626</u>
<b>TOTAL MISCELLANEOUS REVENUE</b>	<b><u>\$213,204</u></b>	<b><u>\$244,673</u></b>

**Note 12 - Other Operating Expenses:**

Other operating expenses consisted of the following:

	<u>2011</u>	<u>2010</u>
Legal and professional expenses	\$ 32,515	\$ 62,999
Insurance expense	641,310	736,914
Wellness Program	<u>6,457</u>	<u>9,575</u>
<b>TOTAL OTHER OPERATING EXPENSES</b>	<b><u>\$680,282</u></b>	<b><u>\$809,488</u></b>



WILLIAMS, WILLIAMS & LENTZ, LLP  
CERTIFIED PUBLIC ACCOUNTANTS  
601 JEFFERSON  
PADUCAH, KENTUCKY 42001

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ROBERT R. ROBERTSON  
C. SUZETTE CRONCH  
MICHAEL F. KARNES  
MARK A. THOMAS  
ROGER G. HARRIS  
J. DAVID BAILEY, III

G. LEON WILLIAMS, 1926-2004  
H. WILLIAM LENTZ, 1925-2007  
JERRY G. SEVERNS

**Report On Internal Control Over Financial  
Reporting And On Compliance And Other Matters  
Based On An Audit of Financial Statements Performed  
In Accordance With Government Auditing Standards**

MAILING ADDRESS  
POST OFFICE BOX 2500  
PADUCAH, KY 42002-2500

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270-443-3643

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270-444-0662

WEBSITE  
www.tcpa.com

The Board of Directors  
Paducah Water Works  
Paducah, Kentucky

We have audited the financial statements of Paducah Water Works as of and for the year ended June 30, 2011 and 2010, and have issued our report thereon dated September 23, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Paducah Water Works' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Paducah Water Works' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Paducah Water Works' internal control over financial reporting.

*A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.*

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Paducah Water Works' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit; and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Paducah Water Works in a separate letter dated September 23, 2011.

This report is intended solely for the information and use of management, the audit committee, Board of Directors, and City Commission of the City of Paducah, Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

*Williams, Williams & Zentgraf*

September 23, 2011



*Filed 10-12-62  
Order Bk 42 Page 372*

*# 1*

McCRACKEN COUNTY COURT

RE: JAMES SANDERS, SR., ET AL, PETITIONERS EX PARTE SEEKING THE ESTABLISHMENT OF THE HENDRON WATER DISTRICT.

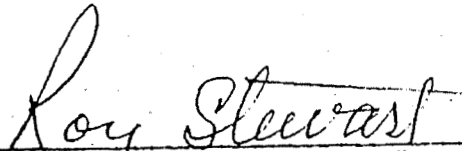
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ORDER

The above, styled petition coming on for hearing herein and it appearing to the Court that notice of the filing of said petition in the form directed by this Court was made in the Sun-Democrat, a newspaper of general circulation in McCracken County, Kentucky, for three successive legal days, and that more than thirty days have elapsed after the publication of said notice, and no objections having been filed to the establishment of said district, and the case having been set for further hearing and being submitted to the Court upon the pleadings and exhibits filed herein, and the Court being sufficiently advised and it appearing to the Court that the establishment of said district is reasonably necessary for the public health, for the protection and comfort of the residents of the area described in the petition and hereinafter set out, it is ordered and adjudged as follows, to-wit:

1. That there is hereby established within the territory

Beginning at a stake in the West right-of-way line of P & I Railroad at the intersection of the same with the City Limits of Paducah, the same being a corner of the Paxton Park Municipal Golf Course; thence in a Westerly direction along and with the Paducah City Limits line around the East side and South side of Forrest Hills Subdivision to a stake marking the Southwest corner of Forrest Hills Subdivision, the said corner being in a common line with the Hendron Fire Protection District and the Lone Oak Fire District; thence South along and with the East line of the Lone Oak Fire Protection District 8,160 feet, more or less, to the Southeast corner of the Lakeview Country Club Clubhouse; thence continuing with the East line of the Lone Oak Fire Protection District and in a Southwesterly direction 2,000 feet, more or less, to a stake marking the intersection of the said East line of the Lone Oak Fire Protection Area and the center line of the Wildcat Road, the same being in the approximate vicinity of the bottom of Ross Hill; thence leaving the East line of the Lone Oak Fire Protection Area South 3,520 feet to a stake marking the Andrew J. Palmer Northwest corner, the same being located on the South side of a lane; thence continuing in a Southwesterly direction 1400 feet, more or less, along and with the Andrew J. Palmer West line to a stake in the South side of Clark Line Road; thence South 3,700 feet, more or less, crossing the Krebs Station Road and continuing South to a point in the dividing line between Hazel MacLean property and the A.M. Brown property, which point is 100 feet South of the Krebs Station Road; thence in an Easterly direction along a line 100 feet South of the Krebs Station Road 15,355 feet, more or less, to a stake marking a point 100 feet South of the Krebs Station Road along the East line of the I.C. Railroad property; thence in a Northerly and Northeasterly direction along and with the West right-of-way line of the I.C. Railroad and continuing on with the said Railroad property known as the P & I Railroad to the point of beginning;

a water district pursuant to Chapter 74 of the Kentucky Revised Statutes, and said district is hereby designated as the Hendron Water District.

  
\_\_\_\_\_  
Judge, McCracken County Court



22800 Hendron Water District 01/01/2010 - 12/31/2010

Title Page



Water

Districts/Associations

Annual Report of

Respondent

Hendron Water District 4410 A.T. Massa Drive

Paducah

KY

42003

22800 Hendron Water District 01/01/2010 - 12/31/2010

Principal Payment and Interest Information

Year	Amount	Yes/No	PSC Case No.
Amount of Principal Payment During Calendar Year	\$64,000.00		
Is Principal Current?		Y	
Is Interest Current?		Y	
Has all long-term debt been approved by the Public Service Commission?		Y	



22800 Hendron Water District 01/01/2010 - 12/31/2010  
 Services Performed by Independent CPA

	Yes/No	A/C/R
Are your financial statements examined by a Certified Public Accountant?	Y	
If yes, which service is performed?		
Enter an X on each appropriate line		
Audit		X
Compilation		
Review		

22800 Hendron Water District 01/01/2010 - 12/31/2010

Additional Requested Information

Name of Utility and Web Address	Name	Electronic Info
Hendron Water District	Linda Cissell	waterdrop4410@yahoo.com

22800 Hendron Water District 01/01/2010 - 12/31/2010

Additional Information Required

Case Num	Date	Explain

n/a

22800 Hendron Water District 01/01/2010 - 12/31/2010

Major Water Projects



Provide details about each major water project which is planned but has not yet been submitted for approval to the Public Service Commission.

For the limited purpose of this report, a "Major Project" is defined as one which is not in the ordinary course of business, and will increase your current utility plant by at least 20 percent.

Brief Project Description: (improvement, replacement, building construction, expansion. If expansion, provide the estimated number of new customers): N/A

Projected Costs and Funding Sources/Amounts:

Approval Status: (Application for financial assistance filed, but not approved; or application approved, but have not advertised for construction bids)

Location: (community, area or nearby roads)

History-Legal Name (Ref Page: 4)



1. Exact name of utility making this report.

(Use the words "The", "Company" or "Incorporated" only when part of the corporate name.)

Hendron Water District

22800 Hendron Water District 01/01/2010 - 12/31/2010

History-Location (Ref Page: 4)

Name	Address	City	State	Zip	Phone
------	---------	------	-------	-----	-------

Give the location, including street and number, and TELEPHONE NUMBER of the principal office in KY.

Hendron Water District	4410 A.T. Massa Drive	Paducah	KY	42003	2705541661
------------------------	-----------------------	---------	----	-------	------------

Give name, title, address and TELEPHONE

NUMBER of the officer

to whom correspondence concerning this report should be addressed.

Larry Hopper	110 Abelia Circle	Paducah	KY	42003	2705540168
--------------	-------------------	---------	----	-------	------------

Location where books are located  
Hendron Water District 4410 A.T. Massa Drive

22800 Hendron Water District 01/01/2010 - 12/31/2010

History-Date Organized (Ref Page: 4)

Date of Organization	Date
	10/29/1962

Date of Organization

10/29/1962

History-Laws of Organization (Ref Page: 4)



If a consolidated or merger company, name all contingent and all merged companies. Give reference N/A to charters or general laws governing each, and all amendments of same

Date and Authority for each consolidation and each merger.



22800 Hendron Water District 01/01/2010 - 12/31/2010

History-Departments (Ref Page: 4)

State whether respondent is a water district or association	Water District
Name all operating departments other than water	None

22800 Hendron Water District 01/01/2010 - 12/31/2010

History - Counties (Ref Page: 5)

Graves, McCracken

22800 Hendron Water District 01/01/2010 - 12/31/2010

History - Number of Employees (Ref Page: 5)

	Count
Number of Full-time employees	6
Number of Part-time employees	4

22800 Hendron Water District 01/01/2010 - 12/31/2010

Contacts (Ref Page: 6)

	Title	Last Name	First Name	Bus. Addr.	Salary	Term Expires
Person to send correspondence:	Bookkeeper	Cissell	Linda	4410 AT Massa Drive, Paducah KY 42003		
Person who prepared this report	CPA	Walker	Jeffrey	60 Lakeview Dr Paducah KY 42001		
Officers and Managers						
	Chairperson	Hopper	Larry	110 Abelia Circle Paduah KY 42003	\$2,400.00	
	Treasurer	Freeman	Ronnie	625 Walnut Drive, Paducah KY 42003	\$2,400.00	

22800 Hendron Water District 01/01/2010 - 12/31/2010  
 Balance Sheet - Assets and Other Debits (Ref Page: 7)

	Previous Year	Current Year
<b>UTILITY PLANT</b>		
Utility Plant (101-106)	\$4,098,745.00	\$4,157,202.00
Less: Accumulated Depreciation and Amortization (108-110)	\$2,261,354.00	\$2,341,719.00
Net Plant	\$1,837,391.00	\$1,815,483.00
Utility Plant Acquisition Adjustments (Net) (114-115)		
Other Utility Plant Adjustments (116)		
Total Net Utility Plant	\$1,837,391.00	\$1,815,483.00
<b>OTHER PROPERTY AND INVESTMENTS</b>		
Nonutility Property (121)		
Less: Accumulated Depreciation and Amortization (122)		
Net Nonutility Property		
Investment in Associated Companies (123)		
Utility and Other Investments (124-125)		
Sinking Funds (126)	\$58,792.00	\$105,968.00
Other Special Funds (127)	\$88,108.00	\$88,108.00
Total Other Property and Investments	\$146,900.00	\$194,076.00
<b>CURRENT AND ACCRUED ASSETS</b>		
Cash (131)	\$51,654.00	\$13,383.00
Special Deposits (132)		
Other Special Deposits (133)		
Working Funds (134)		
Temporary Cash Investments (135)		
Accounts and Notes Receivable, Less Accumulated Provision for Uncollectible Accounts (141-144)	\$63,894.00	\$70,196.00
Accounts Receivable from Associated Companies (145)		
Notes Receivable from Associated Companies (146)		
Materials and Supplies (151-153)	\$8,242.00	\$8,242.00

22800 Hendron Water District 01/01/2010 - 12/31/2010  
 Balance Sheet - Assets and Other Debits (Ref Page: 7)

	Previous Year	Current Year
Stores Expense (161)		
Prepayments (162)	\$9,352.00	\$9,154.00
Accrued Interest and Dividends Receivable (171)		
Rents Receivable (172)		
Accrued Utility Revenues (173)		
Misc. Current and Accrued Assets (174)	\$20,020.00	\$18,646.00
Total Current and Accrued Assets	\$153,162.00	\$119,621.00
<b>DEFERRED DEBITS</b>		
Unamortized Debt Discount and Expense (181)	\$902.00	\$551.00
Extraordinary Property Losses (182)		
Preliminary Survey and Investigation Charges (183)		
Clearing Accounts (184)		
Temporary Facilities (185)		
Misc. Deferred Debits (186)		
Research and Development Expenditure (187)	\$902.00	\$551.00
Total Deferred Debits	\$2,138,355.00	\$2,129,731.00
<b>TOTAL ASSETS AND OTHER DEBITS</b>		

22800 Hendron Water District 01/01/2010 - 12/31/2010  
 Balance Sheet - Equity Capital and Liabilities (Ref Page: 9)

	Previous Year	Current Year
<b>EQUITY CAPITAL</b>		
Appropriated Retained Earnings (214)		\$279,831.00
Retained Earnings From Income before contributions (215.1)	\$197,975.00	
Donated Capital (215.2)	\$1,510,352.00	\$1,526,646.00
Total Equity Capital	\$1,708,327.00	\$1,806,477.00
<b>LONG-TERM DEBT</b>		
Bonds (221)	\$86,000.00	\$44,000.00
Required Bonds (222)		
Advances from Associated Companies (223)		
Other Long-Term Debt (224)	\$127,500.00	\$92,500.00
Total Long Term Debt	\$213,500.00	\$136,500.00
<b>CURRENT AND ACCRUED LIABILITIES</b>		
Accounts Payable (231)	\$89,125.00	\$63,931.00
Notes Payable (232)	\$78,395.00	\$73,395.00
Accounts Payable to Associated Co. (233)		
Notes Payable to Associated Co (234)		
Customer Deposits (235)	\$6,915.00	\$9,595.00
Accrued Taxes (236)	\$1,016.00	\$1,192.00
Accrued Interest (237)	\$3,421.00	\$2,147.00
Matured Long-Term Debt (239)		
Matured Interest (240)		
Tax Collections Payable (241)	\$4,244.00	\$5,082.00
Misc. Current and Accrued Liabilities (242)		
Total Current and Accrued Liabilities	\$185,116.00	\$155,342.00
<b>DEFERRED CREDITS</b>		
Unamortized Premium on Debt (251)		
Advances for Construction (252)	\$31,412.00	\$31,412.00

22800 Hendron Water District 01/01/2010 - 12/31/2010  
 Balance Sheet - Equity Capital and Liabilities (Ref Page: 9)

	Previous Year	Current Year
Other Deferred Credits (263)		
Total Deferred Credits	\$31,412.00	\$31,412.00
<b>OPERATING RESERVES</b>		
Accumulated Provision For:		
Property Insurance (261)		
Injuries and Damages (262)		
Pensions and Benefits (263)		
Miscellaneous Operating Reserves (265)		
Total Operating Reserves		
Total Equity Capital and Liabilities	\$2,138,355.00	\$2,129,731.00



22800 Hendron Water District 01/01/2010 - 12/31/2010

Comparative Operating Statement (Ref Page: 11)

	Previous Year	Current Year
<b>UTILITY OPERATING INCOME</b>		
Operating Revenues (400)	\$726,532.00	\$846,923.00
Operating Expenses (401)	\$697,502.00	\$696,602.00
Depreciation Expenses (403)	\$74,934.00	\$80,188.00
Amortization of Utility Plant Acquisition Adjustment (406)		
Amortization Expense (407)	\$427.00	\$351.00
Taxes Other Than Income (408.10-408.13)	\$13,657.00	\$12,805.00
Utility Operating Expenses	\$786,520.00	\$789,946.00
Utility Operating Income	(\$59,988.00)	\$56,977.00
Income From Utility Plant Leased to Others (413)		
Gains (Losses) from Disposition of Utility Property (414)		
Total Utility Operating Income	(\$59,988.00)	\$56,977.00
<b>OTHER INCOME AND DEDUCTIONS</b>		
Revenues From Merchandising, Jobbing and contract work (415)		
Costs and Expenses of Merchandising, Jobbing and Contract Work (416)		
Interest and Dividend Income (419)	\$230.00	\$829.00
Allowance for funds Used During Constructions (420)		
Nonutility Income (421)	\$12,958.00	\$37,762.00
Miscellaneous Nonutility Expenses (426)		
Total Other Income and Deductions	\$13,188.00	\$38,591.00
<b>TAXES APPLICABLE TO OTHER INCOME</b>		
Taxes Other Than Income (408.20)		
Total Taxes Applicable to Other Income		
<b>INTEREST EXPENSE</b>		
Interest Expense (427)	\$14,595.00	\$13,712.00
Amortization of Debt Discount and Exp. (428)		

22800 Hendron Water District 01/01/2010 - 12/31/2010

Comparative Operating Statement (Ref Page: 11)

	Previous Year	Current Year
Amortization of Premium on Debt (429)		
Total Interest Expense	\$14,595.00	\$13,712.00
<b>EXTRAORDINARY ITEMS</b>		
Extraordinary Income (433)		
Extraordinary Deductions (434)		
Total Extraordinary Items		
NET INCOME BEFORE CONTRIBUTIONS	(\$61,395.00)	\$81,856.00

22800 Hendron Water District 01/01/2010 - 12/31/2010  
 Statement of Retained Earnings 2002 (Ref Page: 12)

Description	Total
Appropriated Retained earnings (214) (state balance and purpose of each appropriated amount at year end.)	
Total Appropriated Retained Earnings	
Retained Earnings From Income Before Contributions (215.1)	
Balance beginning of year	\$197,975.00
Balance transferred from Net Income Before Contributions (435)	\$81,856.00
Changes to account:	
Appropriations of Retained Earnings (436)	
Adjustments to Retained Earnings (439) (requires Commission approval prior to use):	
Credits	
Debits	
Balance End of Year	\$279,831.00

22800 Hendron Water District 01/01/2010 - 12/31/2010

Statement of Retained Earnings (cont. 215.2) (Ref Page: 12)

Description	Lapping Fees	Grants	Other	Total
Donated Capital (215.2)				
Balance Beginning of the Year	\$794,107.00	\$450,396.00	\$265,849.00	\$1,510,352.00
Credits				
Proceeds from capital contributions (432)	\$10,100.00	\$6,194.00	\$0.00	\$16,294.00
Other Credits (explain)				
Debits (explain - requires Commission Approval)				
Balance End of Year	\$804,207.00	\$456,590.00	\$265,849.00	\$1,526,646.00

22800 Hendron Water District 01/01/2010 - 12/31/2010

Net Utility Plant (Accts. 101-106) (Ref Page: 13)

Utility Plant in Service (101)	\$4,116,419.00
Utility Plant Leased to Others (102)	
Property Held for Future Use (103)	
Utility Plant Purchased of Sold (104)	
Construction Work in Progress (105)	\$40,783.00
Completed Construction Not Classified (106)	
Total Utility Plant	\$4,157,202.00

22800 Hendron Water District 01/01/2010 - 12/31/2010  
 Accumulated Depreciation ( Acct. 108) (Ref Page: 13)

Description	Total
Balance First of Year	\$2,261,354.00
Credit during year	
Accruals Charged to Account 108.1	
Accruals Charged to Account 108.2	\$81,698.00
Accruals Charged to Account 108.3	
Accruals Charged to Other Accounts (specify)	
(specify)	
Salvage Value Recovered on Plant Retired	
Other Credits	
(specify)	
Total Credits	\$81,698.00
Debits during year:	
Book Cost of Plant Retired	\$1,333.00
Cost of Removal	
Other Debits	
(specify)	
Total Debits	\$1,333.00
Balance at End of Year	\$2,341,719.00

22800 Hendron Water District 01/01/2010 - 12/31/2010

Water Utility Plant Accounts (Ref Page: 14)

	Pre Year (c)	Additions (d)	Retirement (e)	Current Yr (f)	Intangible Plant (g)	Supply & Pump	Water Treatment	Trans.	Distir.	General Plant
Organization (301)										
Franchises (302)										
Land and Land Rights (303)	\$14,766.00	\$0.00	\$0.00	\$14,766.00	\$0.00	\$2,935.00	\$0.00	\$1,680.00	\$0.00	\$10,151.00
Structures and Improvements (304)	\$170,106.00	\$0.00	\$0.00	\$170,106.00	\$0.00	\$25,607.00	\$0.00	\$0.00	\$0.00	\$144,499.00
Collecting and Impounding Reservoirs (305)										
Lakes, Rivers and Other Intakes (306)										
Wells and Springs (307)										
Infiltration Galleries and Tunnels (308)										
Supply Mains (309)										
Power Generation Equipment (310)										
Pumping Equipment (311)	\$118,835.00	\$0.00	\$0.00	\$118,835.00	\$0.00	\$118,835.00	\$0.00	\$0.00	\$0.00	\$0.00
Water Treatment Equipment (320)	\$1,072.00	\$0.00	\$0.00	\$1,072.00	\$0.00	\$0.00	\$1,072.00	\$0.00	\$0.00	\$0.00
Distribution Reservoirs and Standpipes (330)	\$795,740.00	\$0.00	\$0.00	\$795,740.00	\$0.00	\$0.00	\$0.00	\$0.00	\$795,740.00	\$0.00
Transmission and Distribution Mains (331)	\$1,605,591.00	\$165,084.00	\$0.00	\$1,770,675.00	\$0.00	\$0.00	\$0.00	\$0.00	\$1,770,675.00	\$0.00

22800 Hendron Water District 01/01/2010 - 12/31/2010

Water Utility Plant Accounts (Ref Page: 14)

	Prev Year (c)	Additions (d)	Retirement (e)	Current Yr (f)	Intangible Plant (g)	Supply & Pump	Water Treatment	Trans. and Distr.	General Plant
Services (333)	\$165,275.00	\$11,195.00	\$0.00	\$177,470.00	\$0.00	\$0.00	\$0.00	\$177,470.00	\$0.00
Meters and Meter Installations (334)	\$338,160.00	\$6,580.00	\$1,333.00	\$343,407.00	\$0.00	\$0.00	\$0.00	\$343,407.00	\$0.00
Hydrants (335)	\$91,008.00	\$0.00	\$0.00	\$91,008.00	\$0.00	\$0.00	\$0.00	\$91,008.00	\$0.00
Backflow Prevention Devices (336)									
Other Plant and Misc. Equipment (339)	\$19,917.00	\$0.00	\$0.00	\$19,917.00	\$0.00	\$0.00	\$0.00	\$19,917.00	\$0.00
Office Furniture and Equip. (340)	\$103,773.00	\$0.00	\$0.00	\$103,773.00	\$0.00	\$0.00	\$0.00	\$0.00	\$103,773.00
Transportation Equipment (341)	\$118,611.00	\$0.00	\$0.00	\$118,611.00	\$0.00	\$0.00	\$0.00	\$0.00	\$118,611.00
Stores Equipment (342)									
Tools, Shop and Garage Equip (343)	\$25,051.00	\$1,346.00	\$0.00	\$26,407.00	\$0.00	\$0.00	\$0.00	\$0.00	\$26,407.00
Laboratory Equipment (344)	\$5,713.00	\$0.00	\$0.00	\$5,713.00	\$0.00	\$0.00	\$0.00	\$0.00	\$5,713.00
Power Operated Equipment (345)	\$176,032.00	\$0.00	\$0.00	\$176,032.00	\$0.00	\$0.00	\$0.00	\$0.00	\$176,032.00
Communication Equipment (346)	\$93,526.00	\$0.00	\$0.00	\$93,526.00	\$0.00	\$0.00	\$0.00	\$0.00	\$93,526.00
Miscellaneous Equipment (347)	\$12,858.00	\$0.00	\$0.00	\$12,858.00	\$0.00	\$0.00	\$0.00	\$0.00	\$12,858.00
Other Tangible Plant (348)	\$76,503.00	\$0.00	\$0.00	\$76,503.00	\$0.00	\$0.00	\$0.00	\$0.00	\$76,503.00
<b>Total Water Plant</b>	<b>\$3,933,547.00</b>	<b>\$184,205.00</b>	<b>\$1,333.00</b>	<b>\$4,116,419.00</b>	<b>\$0.00</b>	<b>\$147,377.00</b>	<b>\$1,072.00</b>	<b>\$3,199,897.00</b>	<b>\$768,073.00</b>



22800 Hendron Water District 01/01/2010 - 12/31/2010

Analysis of Accumulated Depreciation and Amortization by Primary Acct (Ref Page: 15)

	Balance Beg. Yr (c)	Cr-Chg Dep Exp (d)	Other Credits (e)	Charges-Plant Ret (f)	Other Charges (g)	Balance End Yr (h)
Organization (301)						
Franchises (302)						
Land and Land Rights (303)						
Structures and Improvements (304)	\$95,018.00	\$4,190.00	\$0.00	\$0.00	\$0.00	\$99,208.00
Collecting and Impounding Reservoirs (305)						
Lake, River and Other Intakes (306)						
Wells and Springs (307)						
Infiltration Galleries and Tunnels (308)						
Supply Mains (309)						
Power Generating Equipment (310)						
Pumping Equipment (311)	\$64,156.00	\$3,000.00	\$0.00	\$0.00	\$0.00	\$67,156.00
Water Treatment Equipment (320)						
Distributions Reservoirs and Standpipes (330)	\$348,114.00	\$21,671.00	\$0.00	\$0.00	\$0.00	\$369,785.00
Transmission and Distribution Mains (331)	\$1,118,155.00	\$46,034.00	\$0.00	\$1,333.00	\$0.00	\$1,162,856.00
Services (333)						
Meters and Meter Installations (334)						
Hydrants (335)						
Backflow Prevention Devices (336)						

22800 Hendron Water District 01/01/2010 - 12/31/2010

Analysis of Accumulated Depreciation and Amortization by Primary Acct (Ref Page: 15)

	Balance Beg. Yr. (c)	Cr-Chg Dep Exp (d)	Other Credits (e)	Charges-Plant Ret(f)	Other Charges (g)	Balance End Yr. (h)
Other Plant and Miscellaneous Equipment (339)	\$1,877.00	\$0.00	\$0.00	\$0.00	\$0.00	\$1,877.00
Office Furniture and Equip. (340)	\$100,818.00	\$217.00	\$0.00	\$0.00	\$0.00	\$101,035.00
Transportation Equipment (341)	\$119,308.00	\$0.00	\$0.00	\$0.00	\$0.00	\$119,308.00
Stores Equipment (342)						
Tools, Shop and Garage Equip (343)	\$34,262.00	\$0.00	\$0.00	\$0.00	\$0.00	\$34,262.00
Laboratory Equipment (344)						
Power Operated Equipment (345)	\$169,999.00	\$0.00	\$0.00	\$0.00	\$0.00	\$169,999.00
Communication Equipment (346)						
Miscellaneous Equipment (347)						
Other Tangible Plant (348)	\$209,647.00	\$6,586.00	\$0.00	\$0.00	\$0.00	\$216,233.00
Totals	\$2,261,354.00	\$61,698.00	\$0.00	\$1,333.00	\$0.00	\$2,341,719.00

22800 Hendron Water District 01/01/2010 - 12/31/2010  
 Accumulated Amortization ( Acct. 110) (Ref Page: 16)

	Description	Total
Balance First of Year		
Credit during year		
Accruals Charged to Account 110.1		
Accruals Charged to Account 110.2		
Other Credits		
(specify)		
Total Credits		
Debits during year:		
Book Cost of Plant Retired		
Other Debits		
(specify)		
Total Debits		
Balance end of Year		

22800 Hendron Water District 01/01/2010 - 12/31/2010

Utility Plant Acquisition Adjustments (Accts. 114-115) (Ref Page: 16)

Description	Total
Acquisition Adjustments (114) (specify)	
Total Plant Acquisition Adjustments	
Accumulated Amortization (115) (specify)	
Total Accumulated Amortization	
Net Acquisition Adjustments	

22800 Hendron Water District 01/01/2010 - 12/31/2010

Investments and Special Funds (Ref Page: 17)

Description (a)	Face or Par Value (b)	Year End Book Cost
Investment in Associated Companies (123)		
Total Investment in Associated Companies		
Utility Investments (124)		
Total Utility Investments		
Other Investments (125)		
Total Other Investments		
Sinking Funds (126)		
Bond & Interest	\$0.00	\$65,572.00
Depreciation	\$0.00	\$30,000.00
Deposit	\$0.00	\$10,396.00
Total Sinking Funds	\$0.00	\$105,968.00
Other Special Funds (127)		
Deferred costs - Sewer Fund	\$0.00	\$3,220.00
Deferred costs - Well Project	\$0.00	\$84,888.00
Total Other Special Funds	\$0.00	\$88,108.00

22800 Hendron Water District 01/01/2010 - 12/31/2010

Accounts and Notes Receivable - Net (Accts 141-144) (Ref Page: 18)

Description	Total
Accounts and Notes Receivable	
Customer Accounts Receivable (141)	\$70,196.00
Other Accounts Receivable (142)	
Total Other Accounts Receivable	
Notes Receivable (144)	
Total Notes Receivable	
Total Accounts and Notes Receivable	\$70,196.00
Accumulated Provision for Uncollectible Accounts (143)	
Balance First of Year	
Add:	
Provision for uncollectibles for current year	
Collections of account previously written off	
Other	
(specify)	
Total Additions	
Deduct accounts written off during year:	
Other	
(specify)	
Total Deductions	
Balance end of Year	
Total Accounts and Notes Receivable - Net	\$70,196.00

22800 Hendron Water District 01/01/2010 - 12/31/2010

Materials and Supplies (151-153) (Ref Page: 19)

	Total
Plant Materials and Supplies (151)	\$8,242.00
Merchandise (152)	
Other Materials and Supplies (153)	
Total Materials and Supplies	\$8,242.00

22800 Hendron Water District 01/01/2010 - 12/31/2010

Prepayments (Acct. 162) (Ref Page: 19)

Description	Total
Prepaid Insurance	\$8,579.00
Prepaid Rents	
Prepaid Interest	
Prepaid Taxes	\$575.00
Other Prepayments	
(Specify)	
Total Prepayments	\$9,154.00



22800 Hendron Water District 01/01/2010 - 12/31/2010

Miscellaneous Deferred Debits (Acct. 186) (Ref Page: 20)

	Total
Miscellaneous Deferred Debits (186)	
Deferred Rate Case Expense (186.1)	
Other Deferred Debits (186.2)	
Regulatory Assets (186.3)	
Total Miscellaneous Deferred Debits	

22800 Hendron Water District 01/01/2010 - 12/31/2010

Unamortized Debt Discount and Expense and Premium on Debt (Accts 181 and 251) (Ref Page: 20)

Description	Amt Written Off during year	Year End Balance
Unamortized Debt Discount and Expense (181)		
Kentucky Infrastructure Authority	\$351.00	\$551.00
Total Unamortized Debt Discount and Expense	\$351.00	\$551.00
Unamortized Premium on Debt (251)		
Total Unamortized Premium on Debt		

22800 Hendron Water District 01/01/2010 - 12/31/2010  
 Extraordinary Property Losses (Acct. 182) (Ref Page: 21)

Description	Total
Extraordinary Property Losses (182)	
(Specify)	

Total Extraordinary Property Losses

22800 Hendron Water District 01/01/2010 - 12/31/2010  
Advances for Construction (Acct. 252) (Ref Page: 21)

Total	\$31,412.00
Balance First of Year	
Add credits during year	
Deduct charges during year	
Balance end of year	\$31,412.00

22800 Hendron Water District 01/01/2010 - 12/31/2010

Long Term Debt (Ref Page: 22)

Description of Obligation (a)	Issue Date (b)	Mature Date (c)	Interest Expense for Year (d)	Interest Expense for Year (e)	Principal per Balance Sheet Date (f)
Kentucky Infrastructure Authority	04/04/1993	06/01/2013	4.8400	\$6,341.00	\$92,500.00
Total			0.0000	\$6,341.00	\$92,500.00

22800 Hendron Water District 01/01/2010 - 12/31/2010

Bonds - Account 221 (Ref Page: 23)

Par Value of Actual Issue (1)	Cash Realized on Issue (2)	Par Val of Amt. Held by Respondent (3)	Actually Outstanding at Close of Year (4)	Interest During Year Accrued (5)	Interest During Year Actually Paid (6)
\$464,000.00	\$464,000.00	\$0.00	\$44,000.00	\$4,483.00	\$3,494.00
\$464,000.00	\$464,000.00	\$0.00	\$44,000.00	\$4,483.00	\$3,494.00
<b>Total</b>					

22800 Hendron Water District 01/01/2010 - 12/31/2010

Schedule of Bond Maturities (Ref Page: 23)

Bond Numbers (7)	Maturity Date (8)	Interest Rate (9)	Principal Amt (10)	Amounts Paid (11)	Remaining Bonds Outstanding (12)
1975		0.0000	\$2,000.00	\$2,000.00	\$0.00
1976		0.0000	\$2,000.00	\$2,000.00	\$0.00
1977		0.0000	\$2,000.00	\$2,000.00	\$0.00
1978		0.0000	\$2,000.00	\$2,000.00	\$0.00
1979		0.0000	\$3,000.00	\$3,000.00	\$0.00
1980		0.0000	\$3,000.00	\$3,000.00	\$0.00
1981		0.0000	\$3,000.00	\$3,000.00	\$0.00
1982		0.0000	\$4,000.00	\$4,000.00	\$0.00
1983		0.0000	\$4,000.00	\$4,000.00	\$0.00
1984		0.0000	\$4,000.00	\$4,000.00	\$0.00
1985		0.0000	\$4,000.00	\$4,000.00	\$0.00
1986		0.0000	\$5,000.00	\$5,000.00	\$0.00
1987		0.0000	\$5,000.00	\$5,000.00	\$0.00
1988		0.0000	\$5,000.00	\$5,000.00	\$0.00
1989		0.0000	\$5,000.00	\$5,000.00	\$0.00
1990		0.0000	\$6,000.00	\$6,000.00	\$0.00
1991		0.0000	\$6,000.00	\$6,000.00	\$0.00
1992		0.0000	\$7,000.00	\$7,000.00	\$0.00
1993		0.0000	\$7,000.00	\$7,000.00	\$0.00
1994		0.0000	\$8,000.00	\$8,000.00	\$0.00
1995		0.0000	\$9,000.00	\$9,000.00	\$0.00
1996		0.0000	\$9,000.00	\$9,000.00	\$0.00
1997		0.0000	\$10,000.00	\$10,000.00	\$0.00
1998		0.0000	\$10,000.00	\$10,000.00	\$0.00
1999		0.0000	\$11,000.00	\$11,000.00	\$0.00
2000		0.0000	\$12,000.00	\$12,000.00	\$0.00

3/20/2012

22800 Hendron Water District 01/01/2010 - 12/31/2010

Schedule of Bond Maturities (Ref Page: 23)

Bond Numbers (7)	Maturity Date (8)	Interest Rate (9)	Principal Amt (10)	Amounts Paid (11)	Remaining Bonds Outstanding (12)
2001		0.0000	\$12,000.00	\$12,000.00	\$0.00
2002		0.0000	\$13,000.00	\$13,000.00	\$0.00
2003		0.0000	\$14,000.00	\$14,000.00	\$0.00
2004		0.0000	\$14,000.00	\$14,000.00	\$0.00
2005		0.0000	\$21,000.00	\$21,000.00	\$0.00
2006		0.0000	\$35,000.00	\$35,000.00	\$0.00
2007		0.0000	\$37,000.00	\$37,000.00	\$0.00
2008		0.0000	\$38,000.00	\$38,000.00	\$0.00
2009		0.0000	\$40,000.00	\$40,000.00	\$0.00
2010		0.0000	\$42,000.00	\$42,000.00	\$44,000.00
<b>Total</b>			<b>\$420,000.00</b>	<b>\$420,000.00</b>	<b>\$44,000.00</b>

(The total of Column 12 must agree with the total of col 4)



22800 Hendron Water District 01/01/2010 - 12/31/2010

Notes Payable (Accts 232 and 234) (Ref Page: 24)

Description	Nominal Date of Issue	Date of Maturity	Int. Rate	Int. Payment	Principal Amt Per Bal Sheet
Account 232 - Notes Payable					
Paducah Bank & Trust	10/30/2009	10/30/2011	6.0000	\$0.00	\$73,395.00
Total Account 232				\$0.00	\$73,395.00
Account 234 - Notes Payable to Associated Companies					
Total Account 234					

22800 Hendron Water District 01/01/2010 - 12/31/2010

Accounts Payable to Associated Companies (Acct. 233) (Ref Page: 24)

Description	Total
-------------	-------

Show Payable to Each Associated Company Separately

(Specify)

Total

22800 Hendron Water District 01/01/2010 - 12/31/2010

Taxes Accrued (Acct. 236) (Ref Page: 25)

Balance First of Year	\$1,016.00
Accruals Charged:	
Utility regulatory assessment fees (408.10)	\$1,150.00
Property taxes (408.11)	
Payroll taxes (employer's portion) (408.12)	\$11,655.00
Other taxes and licenses (408.13)	
Taxes other than income, other income and deductions (408.20)	
Total taxes accrued	\$12,805.00
Taxes paid during year:	
Utility regulatory assessment fees (408.10)	\$1,150.00
Property taxes (408.11)	
Payroll taxes (employer's portion) (408.12)	\$11,479.00
Other taxes and licenses (408.13)	
Taxes other than income, other income and deductions (408.20)	
Total Taxes Paid	\$12,629.00
Balance end of year	\$1,192.00

22800 Hendron Water District 01/01/2010 - 12/31/2010

Accrued Interest (Account 237) 2002 (Ref Page: 25)

Description of Debt (a)	Balance Beg of Year (b)	Interest Accrued (c)	Interest Paid (d)	Balance End of Year (e)
<b>Long Term Debt:</b>				
	0.0000	\$0.00	\$0.00	\$0.00
Revenue Series B	2026.0000	\$2,505.00	\$3,494.00	\$1,037.00
<b>Notes Payable:</b>				
Kentucky Infrastructure	596.0000	\$6,107.00	\$6,341.00	\$362.00
Paducah Bank	799.0000	\$4,718.00	\$4,769.00	\$748.00
<b>Customer Deposits:</b>				
Customer deposits	0.0000	\$382.00	\$382.00	\$0.00
<b>Other</b>				
	0.0000	\$0.00	\$0.00	\$0.00
<b>Total Acct. No 237</b>	<b>3421.0000</b>	<b>\$13,712.00</b>	<b>\$14,986.00</b>	<b>\$2,147.00</b>

22800 Hendron Water District 01/01/2010 - 12/31/2010

Miscellaneous Current and Accrued Liabilities (Acct. 242) (Ref Page: 26)

Description	Balance End Year
Total Miscellaneous Current and Accrued Liabilities	

22800 Hendron Water District 01/01/2010 - 12/31/2010

Regulatory Commission Expense( Acct 666 and 667) (Ref Page: 26)

Description of Case (Docket No.) (a)	Total Incurred During Year (b)	Amt. Transferred to Acct. 186.1 (c)	Expensed During Year, Acct. (d)	Expensed During Year, Amount (e)
[REDACTED]				

Total

22800 Hendron Water District 01/01/2010 - 12/31/2010

Water Operating Revenue (Ref Page: 27)

	Beginning Year Customers	Year End Customers	Amount
<b>Operating Revenues</b>			
Unmetered Water Revenue (460)			
Metered Water Revenue (461)			
Sales to Residential Customers (461.1)	2,510	2,568	\$746,026.00
Sales to Commercial Customers (461.2)	51	50	\$35,309.00
Sales to Industrial Customers (461.3)			
Sales to Public Authorities (461.4)			
Sales to Multiple Family Dwellings (461.5)	87	86	\$48,860.00
Sales through Bulk Loading Stations (461.6)			
Total Metered Sales	2,648	2,704	\$830,195.00
Fire Protection Revenue (462)			
Public Fire Protection (462.1)			
Private Fire Protection (462.2)			
Total Fire Protection Revenue			
Other Sales to Public Authorities (464)			
Sales to Irrigation Customers (465)			
Sales for Resale (466)			
Interdepartmental Sales (467)			
Total Sales of Water	2,648	2,704	\$830,195.00
Other Water Revenues			
Guaranteed Revenues (469)			
Forfeited Discounts (470)			\$16,728.00
Miscellaneous Service Revenues (471)			
Rents from Water Property (472)			
Interdepartments Rents (473)			
Other Water Revenues (474)			
Total Other Water Revenues			\$16,728.00

22800 Hendron Water District 01/01/2010 - 12/31/2010

Water Operating Revenue (Ref Page: 27)

Beginning Year Customers	Year End Customers	Amount
--------------------------	--------------------	--------

Total Water Operating Revenues

\$846,923.00



22800 Hendron Water District 01/01/2010 - 12/31/2010

Water Utility Expense Accounts (Ref Page: 28)

	Current Year (c)	Supply and Exp-Op (d)	Supply and Exp-Maint (e)	Water Treatment Exp-Op (f)	Water Treatment Exp-Maint (g)	Trans and Dist Exp-Op (h)	Trans and Dist Exp-Maint (i)	Customer Accts Admin and Gen Exp (j)	
Salaries and Wages-Employees (601)	\$162,526.00	\$0.00	\$0.00	\$0.00	\$0.00	\$107,935.00	\$0.00	\$27,295.00	\$27,296.00
Salaries and Wages-Officers, Directors and Majority Stockholders (603)	\$7,200.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$7,200.00
Employee Pensions and Benefits (604)	\$40,638.00	\$0.00	\$0.00	\$0.00	\$0.00	\$26,988.00	\$0.00	\$6,825.00	\$6,825.00
Purchased Water (610)	\$314,050.00	\$314,050.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Purchased Power (615)	\$38,762.00	\$25,082.00	\$0.00	\$0.00	\$0.00	\$1,433.00	\$0.00	\$0.00	\$12,247.00
Fuel for Power Production (616)									
Chemicals (618)	\$1,689.00	\$0.00	\$0.00	\$1,689.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Materials and Supplies (620)	\$48,520.00	\$0.00	\$0.00	\$0.00	\$0.00	\$10,065.00	\$21,976.00	\$11,531.00	\$4,948.00
Contractual Services - Eng. (631)	\$4,037.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$4,037.00	\$0.00	\$0.00
Contractual Services - Acct. (632)	\$7,950.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$7,950.00
Contractual Services - Legal (633)	\$449.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$449.00
Contractual Services - Management Fees (634)									

22800 Hendron Water District 01/01/2010 - 12/31/2010

Water Utility Expense Accounts (Ref Page: 28)

	Current Year (c)	Supply and Exp-Op (d)	Water Treatment Exp-Op (f)	Water Treatment Exp-Maint (g)	Trans and Dist. Exp-Op (h)	Trans and Dist. Exp-Maint (i)	Customer Accts Admin and Gen. Exp (j)
Contractual	\$2,292.00	\$0.00	\$2,292.00	\$0.00	\$0.00	\$0.00	\$0.00
Serves - Water Testing (635)							
Contractual	\$29,776.00	\$0.00	\$0.00	\$0.00	\$3,494.00	\$0.00	\$24,000.00
Services - Other (636)							\$2,282.00
Rental of Bld./Real Property (641)							
Rental of Equipment (642)	\$631.00	\$0.00	\$0.00	\$0.00	\$0.00	\$631.00	\$0.00
Transportation Expenses (650)	\$14,001.00	\$0.00	\$0.00	\$0.00	\$10,501.00	\$3,500.00	\$0.00
Insurance - Vehicle (656)	\$4,893.00	\$0.00	\$0.00	\$0.00	\$3,670.00	\$1,223.00	\$0.00
Insurance - General Liability (657)	\$6,329.00	\$0.00	\$0.00	\$0.00	\$4,430.00	\$0.00	\$1,899.00
Insurance - Worker's Compensation (658)	\$2,701.00	\$0.00	\$0.00	\$0.00	\$0.00	\$2,296.00	\$405.00
Insurance - Other (659)	\$1,011.00	\$0.00	\$0.00	\$0.00	\$1,011.00	\$0.00	\$0.00
Advertising Expenses (660)							
Regulatory Commission Exp.							
- Amortization of Rate Case (666)							
-Other (667)							

22800 Hendron Water District 01/01/2010 - 12/31/2010

Water Utility Expense Accounts (Ref Page: 28)

	Current Year (c)	Supply and Exp-Op (d)	Supply and Exp-Maint (e)	Water Treatment Exp-Op (f)	Water Treatment Exp-Maint (g)	Trans and Dist Exp-Op (h)	Trans and Dist Exp-Maint (i)	Customer Accts Exp (j)	Admin and Gen Exp (k)
Water Resource Conservation Expense (668)									
Bad Debt (670)	\$3,102.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$3,102.00
Miscellaneous Expenses (675)	\$6,045.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$6,045.00
Total	\$696,602.00	\$339,132.00	\$0.00	\$3,981.00	\$0.00	\$169,527.00	\$33,663.00	\$69,651.00	\$80,648.00

22800 Hendron Water District 01/01/2010 - 12/31/2010

Pumping and Water Statistics - part one (Ref Page: 29)

	Water Purchased For Resale (Omit 000's) (b)	Water Pumped from Wells (Omit 000's) (c)	Total Water Pumped and Purchased (Omit 000's) (d)	Water Sold To Customers (Omit 000's) (e)
January	15,437	0	15,437	13,165
February	17,397	0	17,397	12,483
March	13,616	0	13,616	10,645
April	14,134	0	14,134	11,873
May	15,257	0	15,257	13,975
June	16,729	0	16,729	15,961
July	24,332	0	24,332	19,725
August	25,121	0	25,121	20,739
September	19,877	0	19,877	17,316
October	16,949	0	16,949	15,405
November	15,016	0	15,016	12,711
December	15,435	0	15,435	11,101
Total for the year	209,300	0	209,300	175,099

22800 Hendron Water District 01/01/2010 - 12/31/2010  
Pumping and Water Statistics - part two (Ref Page: 29)

Gallons	Date
Maximum Gallons pumped by all methods in any one day (Omit 000's)	0
Minimum Gallons pumped by all methods in any one day (Omit 000's)	0

22800 Hendron Water District 01/01/2010 - 12/31/2010  
Pumping and Water Statistics - part three (Ref Page: 29)



If water is purchased indicate the following:

Vendor

Paducah Bank & Trust

Point of Delivery

Main Connection

22800 Hendron Water District 01/01/2010 - 12/31/2010

Pumping and Water Statistics - part four (Ref Page: 29)

Entity Receiving Water	Maximum Daily	Maximum Monthly
<p>If water is sold to other water utilities for redistribution, identify all entities with whom the utility has a water sales contract and the maximum quantity the utility is under contract to provide daily and monthly. If unlimited then list "unlimited" otherwise list in thousands of gallons.</p>		

22800 Hendron Water District 01/01/2010 - 12/31/2010

Sales For Resale (466) (Ref Page: 30)

Company	Gallons (omit 000's)	Avg. Rate Per 1000 Gallons (Cents)	Amount
Total			



22800 Hendron Water District 01/01/2010 - 12/31/2010

Water Statistics (Ref Page: 30)

	Gallons (Omit 000's)	Percent
1. Water Produced, Purchased and Distributed		
2. Water Produced		
3. Water Purchased	209,300	
4. Total Produced and Purchased	209,300	
6. Water Sales:		
7. Residential	167,222	
8. Commercial	7,877	
9. Industrial		
10. Bulk Loading Stations		
11. Resale		
12. Other Sales		
13. Total Water Sales	175,099	
15. Other Water Used		
16. Utility/water treatment plant		
17. Wastewater plant		
18. System flushing	14,000	
19. Fire department	52	
20. Other		
21. Total Other Water Used	14,052	
23. Water Loss:		
24. Tank Overflows	1,020	
25. Line Breaks	8,848	
26. Line Leaks	10,281	
27. Other		
28. Total Line Loss	20,149	
Note: Line 13 + Line 21 + Line 28 must equal Line 4		
32. Water Loss Percentage		

22800 Hendron Water District 01/01/2010 - 12/31/2010

Water Statistics (Ref Page: 30)

Gallons (Omit 000's)	Percent
	9.6269

33. Line 28 divided by Line 4

22800 Hendron Water District 01/01/2010 - 12/31/2010

Plant Statistics (Ref Page: 31)

Give the following information	
Number of fire hydrants, by size	410-Six Inch
Number of private fire hydrants, by size	None
If produced whether water supply is nver, impounded streams, well, springs,artificial lake,or collector well	Ohio River (Purchased from Paducah Water Works)
If produced whether supply is by gravity, pumping or a combination	Combination
Type, capacity, and elevation of reservoirs at overflow and ground level	(A) 100,000 Gallon Sphere, 113 ft. high, Overflow Elevation 560 ft. Ground 447 ft. (B) 50,000 Gallon Sphere, 105 ft. High, Overflow Elevation 560 ft. Ground 492 ft. (C) 100,000 Gallon Sphere, 108 ft. high, Overflow Elevation 560 ft. Ground 492 ft. (D) 300,000 Gallon Sphere 94.2 ft. high, Overflow elevation 560 ft. Ground 478 ft.
Miles of main by size and kind	Asbestos Cement pipe - 6" 4.7 miles, 8" 7.8 miles 10" 6.8 miles, Polyvinyl Chloride Pipe - 6" 44.28 miles, 11" 9 miles
Types of fillers: gravity or pressure, number of units and total rated in capacity in gal. per min.	None
Type of disinfectant, number of units and capacity in pounds per 24 hours	Unit #1 at Pumping Station No. 1 Electrically Operated, Positive Displacement Diaphragm Type Chlorinator with a constant feed rate, manual adjustments (10 to 1 Range) Having a capacity of 30 to 500 gallons
Station Equipment. List each pump,giving type and capacity. HP of driving unit and character of driving unit(steam/electric/int. combustion) also whether pump is high/ low duty	Station 1 (2) units Type Vertical Turbine Pot Type, Capacity 500 GPM, Horsepower 40, Pump Duty High Service Motor, Characier Electric (Standby Diesel Generator)
Quantity of fuel used: coal in lbs., gas in cu.ft., oil in gals.,and electric in KWH	298,886 KWH, 1,653 Cu Ft.
Give description and total cost of any sizable additions or retirements to plant and service outside the normal system of growth for the period covered by this report	None
Capacity of clear well	None
Peak month, in gallons of water sold	August, 20,738,500
Peak day, in gallons of water sold	Not Available

22800 Hendron Water District 01/01/2010 - 12/31/2010

Plant Statistics - Part B (Ref Page: 31)

Type
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Choose one to indicate the type of Water Supply

22800 Hendron Water District 01/01/2010 - 12/31/2010

Plant Statistics - Part C (Ref Page: 31)

Water Supply Method	Type
---------------------	------

Choose one to indicate the type of Water Supply Method

Combination



COPY

AGREEMENT

THIS AGREEMENT made and entered into this 16<sup>th</sup> day of April, 2012, by and between HENDRON WATER DISTRICT, hereinafter referred to as "District," and PADUCAH WATER WORKS d/b/a Paducah Water, hereinafter referred to as "System";

WITNESETH:

WHEREAS, District desires to merge its entire water distribution system with water distribution system of System, and System desires to acquire the water distribution system of District; and

WHEREAS, District and System now desire to formalize their agreement in writing;

NOW, THEREFORE, for valuable consideration, the legal adequacy and sufficiency of which is hereby acknowledged by all parties, the parties do covenant and agree as follows:

**1. TRANSFER AND ACCEPTANCE.**

- 1.1 Description of Agreement. Subject to the terms and conditions of this Agreement, District hereby agrees to transfer unto System and System hereby agrees to accept from District, District's entire water distribution system. Included in this transfer and acceptance are all rights in real property, all equipment and personal property, all water storage tanks, all easement rights, all water distribution facilities, all contract rights and accounts of District, and all cash on hand. It is the intent of District and System that this transfer and acceptance shall include all of District's assets, including both real and personal property, and all rights, and privileges of every kind and nature, and wheresoever situated.
- 1.2 Title to be Delivered. District agrees to transfer marketable fee simple title to all of the real and personal property of District, which property shall not be subject to any lien or adverse interest of another except as may be acceptable to System. System shall, at its cost, have a title examination performed on the property transferred herein.
- 1.3 Documents of Transfer. District shall execute all documents of transfer, including appropriate and recordable deeds of conveyance and bills of sale. All documents of transfer shall be duly authorized by appropriate resolution of District.
- 1.4 Assumption of Debt and Contract Agreements. In consideration of the transfer of the property of District to System, System agrees that it shall assume all of the debt of District on the date of closing. Additionally, System shall accept and honor all legally binding contractual agreements of District with its customers and developers, including all pay back contract, if any. However, these assumption provisions shall only be valid and enforceable subject to the following conditions:
  - 1.4.1 District shall use best efforts to identify to System all District debts

and contracts; and

1.4.2 All conditions precedent to closing shall have been fully satisfied and complied with.

**2. REPRESENTATIONS AND WARRANTIES OF DISTRICT.**

- 2.1 Merchantable Title. District hereby represents and warrants to System that it has full and complete merchantable title to its real and personal properties. System may waive any defect at its option.
- 2.2 Condition of Facilities. District hereby represents that to the best of its knowledge its facilities are in compliance with all federal, state, and local law.
- 2.3 Financial Condition of District. District hereby represents that to the best of its knowledge the last audit substantially represents the District's financial condition.
- 2.4 Adverse Proceeding. District hereby represents to System that to the best of its knowledge it is not presently a party to any judicial or administrative proceeding, nor has it knowledge of any threatened or imminent judicial or administrative proceeding.
- 2.5 Operations. District hereby represents to System that to the best of its knowledge the operation of its water distribution system has been and continues to be in compliance with all federal, state, and local regulatory law.

**3. OBLIGATIONS OF DISTRICT PRIOR TO CLOSING.**

- 3.1 Obligations to Continue Management of Facilities. From and after the date of the execution of this Agreement to date of closing, District shall continue the management, operation, and maintenance of District's water distribution system in a sound and reasonable manner and in accordance with standard water distribution practices. Additionally, District shall continue to collect its water charges from its customers in the usual and customary manner, and shall maintain good operating and accounting records.
- 3.2 Prohibition Against Further Liability and Expenditures. From and after the date of the execution of this Agreement to date of closing, District shall not incur any additional liability or debt nor make any expenditure of funds unless such liability, debt, or expenditure is reasonably necessary to the continued operations of District, or District's compliance with its obligations as herein assumed. Additionally, District shall not enter into any additional contractual relationship with any of its customers which is not in the ordinary course of business unless the prior written consent of System is obtained.
- 3.3 Information to be Disclosed to System. District shall make reasonable efforts to identify to System each and every, liability, debt and contract to be assumed by System as provided for herein, and provide to System any agreements, documents or writings evidencing same. Additionally, District shall provide to



System full and complete access to all of its files, records, documents, maps, and writings, and System may request that District personnel be available to System to be interviewed about operational matters, or otherwise provide information regarding the operation of the District.

- 3.4 Access to Real and Personal Property. District shall provide to System full and complete access to its real and personal properties, and each and every part of its water distribution system. System shall have the right to fully inspect same, and perform any test or study as relates to same. District shall identify to System any known defects or needs of imminent repair or replacement regarding any of the aforesaid property. Additionally, District shall identify and provide to System any manufacturer's warranties, documents of purchase, service agreements or other written representations as relate to any of District's property.

**4. OBLIGATIONS OF SYSTEM PRIOR TO CLOSING.**

- 4.1 Investigation. From and after the date of execution of this Agreement, System shall immediately commence its due diligence and inspection of the District, including the physical assets and all documents and records relating to liabilities, debts and contracts to be assumed by System as provided herein, and of the document and records relating to the financial worth and condition of District. System may employ, at its expense, any engineer, accountant, attorney, or any other expert to perform any part of the investigation and inspection to be performed by System.
- 4.2 Approvals. From and after the date of the execution of this Agreement, System shall initiate, at its cost, the appropriate proceedings before the City of Paducah City Commission ("City Commission"), and/or the McCracken County Fiscal ("Fiscal Court"), to procure their consent and approval to this Agreement. System shall file with the City Commission and/or the Fiscal Court its recommendation for approval, and utilize its best efforts to procure such approval. Additionally, System shall initiate, at its cost, the appropriate proceedings before any state or federal agencies, specifically including the Public Service Commission, for their consent and approval of this Agreement, and the transfer and acceptance as herein provided.
- 4.3 Audit. From and after the date of the execution of this Agreement, System may, at its election and cost, have a certified public accountant perform an audit of District for the years 2010 and/or 2011.
- 4.4 Documents of Transfer. System shall have prepared, at its cost, all documents of transfer, including any deeds of conveyance and bills of sale which shall be available for inspection by District prior to the time of closing.

**5. CONDITIONS PRECEDENT TO TRANSFER AND ACCEPTANCE.**

- 5.1 Conditions Precedent. Notwithstanding the foregoing transfer and acceptance, this transfer and acceptance shall be subject to the following conditions precedent:

- 5.1.1 Title to the real and personal property transferred herein shall be marketable fee simple title free and clear of all liens or adverse interests except those acceptable to System;
- 5.1.2 The transfer and acceptance shall be approved, if legally necessary, by the City Commission and/or the Fiscal Court;
- 5.1.3 The transfer and assignment shall be fully and finally approved by applicable state and federal agencies, specifically including the Public Service Commission;
- 5.1.4 The debts to be assumed by System as provided for herein are acceptable to System at its discretion;
- 5.1.5 The liabilities to be assumed by System as provided for herein are acceptable to System at its discretion;
- 5.1.6 The contractual agreements to be assumed by System as provided for herein are acceptable to System at its discretion;
- 5.1.7 District shall be solvent and in a good financial condition;
- 5.1.8 The real and personal property to be transferred herein shall be in an acceptable condition and state of repair;
- 5.1.9 All other representations and warranties of District to System have been fully satisfied and complied with; and

5.2 Satisfaction of Conditions Precedent. On the date of closing, all of the above-referenced conditions precedent shall be fully satisfied and complied with. In the event anyone of the aforesaid conditions precedent is not fully satisfied and complied with, System, at its option, may terminate this Agreement, and upon such termination, the Agreement shall be of no further legal force and effect. Upon such termination, the District shall not be liable to System in any manner whatsoever.

**6. CLOSING.**

- 6.1 Date and Place of Closing. Upon System's determination that all conditions precedent have been fully satisfied and complied with, System shall immediately give written notice of such fact to the District. Closing shall take place as soon as practicable following the date of said notice, but in no event shall it be more than 90 days from notice.
- 6.2 Documents of Transfer. At the time of closing, District shall tender to System properly executed documents of transfer including appropriate resolutions of District authorizing the transfer and appropriate deeds of conveyance and bills of sale. Additionally, at the time of transfer, District shall tender to System all of its

records and documents including, but not limited to, bank accounts, customer accounts and files, engineering plans, financial statements, audits, easements, contracts with customers, etc. It is the intent of the parties herein that on date of closing, any and all of the property, rights and privileges shall be finally assigned and transferred to System.

- 6.3 Notice of Closing to "District Customers. In the event there is any requirement that notification of final transfer of District's assets and property be given to the customers of District, District agrees to provide such notification.

**7. OBLIGATIONS OF DISTRICT SUBSEQUENT TO CLOSING.**

- 7.1 Assistance in Transition. Immediately subsequent to closing, District shall utilize its best efforts to assist System in transferring the customer accounts and files to System's system and to otherwise cooperate and assist System to finalize the transfer of property and the assumption of District's operations by System. District shall not do any act or omit to perform any act which is adverse or inimical to this Agreement.
- 7.2 Dissolution of District. At such point in time that the transfer of property from District to System has been fully finalized, and the assumption by System of District's operations has been fully effectuated, System, on behalf of District, shall file with the Public Service Commission a petition, application or other pleading or document requesting dissolution of District. District shall perform all other acts necessary to finalize dissolution of District. All necessary costs including necessary legal services, relating to dissolution proceedings, shall be assumed by System.

**8. POST-CLOSING OBLIGATIONS OF SYSTEM.**

- 8.1 Operations of District's Water Distribution System. From and after the date of closing, System shall assume full control of the operations of District's water distribution system and shall assume full responsibility for providing a quality and adequate water supply to the customers of District. It is the intention of this Agreement that System shall treat all District customers in all respects the same as all present System customers. Additionally, System shall have full responsibility to repair, replace and otherwise maintain District's former water distribution facilities. System shall operate and maintain the water distribution facilities in accordance with its general practices and standards which System utilizes in relation to its present System customers and, additionally, in compliance with all federal and state law.
- 8.2 Rates. Water rates charged by the System shall be the same as charged to all system customers of the same class effective the date of this agreement. The Capital Replacement and Expansion Fee charged to existing System customers will be \$4.00 per month for a 5/8" or 3/4" meter effective July 1, 2012. Charges to District customers for a 5/8" or 3/4" will be phased in starting with \$2.00 per month as of effective date of this agreement. The charge will increase to \$3.00 and \$4.00 on July 1, 2013 and July 1, 2014

respectively. On July 1, 2015 the fee will be equalized with all other system customers. Charges for larger meters are based on meter size.

- 8.3 Future Rate Increases. Water rate increases to the District's customers shall be based on the same percentage given to all customers of the same class uniformly across the System.
- 8.4 Expansion of District Water Distributions. System shall use its good faith and good business, engineering, and operational practices to establish water system expansions and improvements which are necessitated by reason of the growth and development of the present area in District. Any necessary water system expansion and improvements shall be addressed and implemented by System in accordance with the same general practices and standards which System utilizes in relation to its other Customers. Additionally, any future meter setting fees, for new, non-existing extensions, for any customers located within District, shall be calculated and established in the same manner as the meter setting fees charged by System to its customers of similar class accordance with the same general practices and standards.
- System shall make every good faith effort to perform water system extensions and improvements so as to aid the growth and prosperity of the District area. The foregoing notwithstanding, all water extensions and improvements shall remain in the discretion of System and shall at all times be subject to prudent business practices and standards for water utilities.
- 8.5 Real Property Transferred at Time of Closing-Use by System. All real property which is transferred by District to System at time of closing shall be held by System and/or used by System for water distribution and supply purposes only.
- 8.6 District's Debts. System agrees to pay and satisfy all assumed debts of District in accordance with the arrangements made by District to its various creditors.
- 8.7 District's Contracts. System agrees to assume and perform all contractual obligations of District.
- 8.8 District's Attorney Fees. System agrees to pay and satisfy reasonable and necessary attorney fees, if any, incurred by District in seeking Public Service Commission approval of this Agreement.
- 8.9 District Employees.
- 8.9.1 Offer of Employment. System shall offer employment to one office employee, the one with longest service, and to all the remaining outside distribution employees of District or, at the option of System, in order to avoid duplication and undue expense to rate payers, the System may offer to select employees a Severance Agreement which will provide a lump sum cash payment of an amount equal to six months of the employees base salary at District, as of the date of this agreement.

Acceptance or non-acceptance of a severance offer will be solely at the option of the employee.

- 8.9.2 Wages and Benefits. District employees who accept employment with System shall be given a salary and benefits commensurate with System employees in a similar job classification, as determined by System. Current System employee wages and benefits are attached hereto, for illustration purposes, as Exhibit "B". District employees' years of service shall be carried over in regard to vacation and sick leave and there will be no waiting period for insurance benefits. Retirement benefits shall be carried over in compliance with ERISA
- 8.9.3 Policies and Duties. District employees shall be subject to the same employment policies and job regulations as System's current employees and shall perform job duties as directed by System in its discretion.
- 8.10 Storage Tanks. System shall maintain the name of the immediate area around any elevated storage tank along with the logo of the System.
- 8.11 Graves County Customers.
- 8.11.1 System shall assume full responsibility for providing a quality water supply to the District customers residing in Graves County ("Graves County Customers"). System shall treat all Graves County Customers in all respects the same as all other System Customers.

## 9. MISCELLANEOUS.

- 9.1 Reference to System's General Practices and Standards. The references in this Agreement to System's "general practices and standards" shall be defined to include not only the general practices and standards presently utilized by System, but additionally, any other practices and standards which may be utilized by System in the future, so long as said general practices and standards treat District customers in all respects the same as all other System Customers. Nothing contained in this Agreement shall impair or limit System from amending or modifying its general practices and standards, or implementing new practices and standards. The intent of the parties hereto is merely that the District customers shall be treated as all other System Customers, as they are presently treated by System and as they may be treated by System in the future.
- 9.2 Entire Agreement. This Agreement represents the entire agreement by and between the parties hereto, and all prior promises, representations, covenants and understandings are fully merged herein. There are no other promises, terms, conditions, or obligations other than those specifically contained herein.
- 9.3 Captions. The captions appearing in this Agreement have been asserted for the purpose of convenience and ready reference. They do not purport to, and shall not be deemed to, define, limit, or extend the scope or intent of the clauses to

which they pertain.

- 9.4 Applicable Law. It is mutually understood and agreed that this Agreement shall be governed by the laws of the Commonwealth of Kentucky as to both interpretation and performance.
- 9.5 Binding Effect. This Agreement shall bind and inure to the benefit of the parties hereto, and each of their respective successors and assigns.
- 9.6 Assignment. This Agreement, any interest herein, or any claim arising hereunder, shall not be transferred by either party without the prior written consent of the other party.
- 9.7 Notices. Notice to System and District shall be given at the following addresses:

System  
40 I Washington Street  
P. O. Box 2377  
Paducah, Kentucky 42002-2377

District  
4410 A T Massa Drive  
Paducah, Kentucky 42003-9015

- 9.8 Severability. The parties agree that if a court of competent jurisdiction holds anyone or more of the paragraphs or subparagraphs of this Agreement to be invalid or ineffective for any reason, any such paragraph or subparagraph will be deemed separate from the remainder of this Agreement and will not affect the validity and enforceability of the remaining provisions.
- 9.9 Indemnification. From and after the date of execution of this Agreement and after the closing, System agrees to fully indemnify and hold harmless the District, or any of its commissioners individually, from any claim by any persons by reason of the District entering into this Agreement or obligations which flow therefrom.

System agrees to fully indemnify and hold harmless the District and its commissioners individually from any and all liability, costs, and damage because of injury of any person or damage to or destruction of property incident to or arising out of any act or request of System performed by the District or System after the entering of this Agreement and prior to the closing.

It is clearly understood that System assumes all rights, obligations, debts, claims, or contingent claims of District at the time of closing and will fully indemnify and hold harmless the District or its commissioners individually from any such obligation, debt or claim.

- 9.10 District Office. The District's present office will remain open for not less than one month after the date of closing for paying of accounts and customer service.

IN WITNESS WHEREOF, the parties hereto have set their hands on the date first above written.

HENDRON WATER DISTRICT

By Larry S. Hopper

Title: Chair of Hendron Water District Board

PADUCAH WATER WORKS d/b/a  
PADUCAH WATER

By W.R. Johnston

Title: Chair of Paducah Water Board

STATE OF KENTUCKY )

COUNTY OF McCracken )

Subscribed and Sworn to before me this 16 day of April, 2012, by  
Larry S. Hopper

My commission expires: 4-14-16

Linda M. Cisell #463748

NOTARY PUBLIC, STATE AT LARGE

STATE OF KENTUCKY )

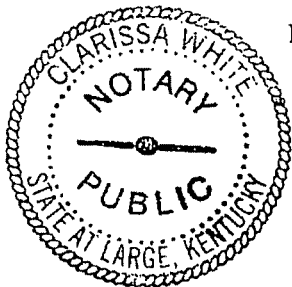
COUNTY OF McCracken )

Subscribed and Sworn to before me this 17<sup>th</sup> day of April, 2012, by  
W.R. Johnston, chair of the Paducah Water Board.

My commission expires: June 13, 2015

Clarissa White #444538

NOTARY PUBLIC, STATE AT LARGE



**Contract Wage & Benefit Exhibit  
March 1, 2012**

**Current Union Contract Wage Scale Effective March 1, 2012:**

Office:	
Meter Reader	\$14.12
Distribution:	
Utility Inspection & Maintenance	\$21.14
Operator	\$20.79
Laborer	\$19.92
Treatment Plant:	
Control Systems Specialist	\$27.24
Maintenance	\$21.47
Operator	\$21.34

New union employees to the utility start at 80% of the classification wage rate and advance 5% per year until they reach the maximum of the classification. Annual contract increases are also given.

**Non-Union Staff Salary Ranges:**

Customer Service Representative	\$17.48
Distribution Foreman	\$27.24

**Benefits**

**Health & Dental:**

Fully paid family plan with a maximum cost cap. Currently all the employees are paying \$40.38 or \$17.31 per week toward the cost of the coverage with the company paying the rest.

**Other Benefits Provided:**

Life Insurance  
Holiday Pay Schedule  
Vacation Leave  
Sick Leave  
Miscellaneous

**EXHIBIT A**